Beth Israel Deaconess Medical Center

A teaching hospital of Harvard Medical School

Paul F. Levy
President and
Chief Executive Officer

March 18, 2010

Mr. David Morales
Commissioner
Division of Health Care Finance and Policy
Two Boylston Street
Boston, MA 02110

Dear Commissioner Morales:

Below, please find supplemental responses to questions asked by the Office of the Attorney General in Appendix C of your letter dated February 12, 2010.

Question 1. Please explain and submit a summary table showing your internal costs and cost trends from 2004 to 2008 broken out to show categories of aggregate direct costs (e.g., labor costs for all cost centers) and categories of indirect costs including, but not limited to, debt service, depreciation, advertising, bad debt, stop-loss insurance, malpractice insurance, health safety net, development/fundraising, administration, research, academic costs. Please explain and submit supporting documents to show the methodologies you use to allocate the categories of indirect costs to cost centers (operating units).

Beth Israel Deaconess Medical Center (BIDMC) is supplementing its previous testimony through the addition of the attached two schedules:

- The first schedule summarizes BIDMC's schedule IX to the DHCFP 403 report for the 2004 - 2008 period. Certain amounts, as noted, have been reallocated to increase the consistency of reporting methodology over the five-year period
- The second schedule includes specific areas of indirect cost listed in the supplemental request that are not separately identified in the first schedule.

Beth Israel Deaconess Medical Center
Supplemental Information on Indirect Expenses
(in thousands)

	2004	2005	2006	2007	2008
Debt Service	22,018	28,953	30,277	30,646	40,283
Advertising*	722	1,309	1,574	556	1,339
Stop Loss Insurance	824	none	none	none	none
Development	1,962	2,983	4,488	5,138	7,291

*BIDMC's advertising expense includes participation in community events, yellow pages listings, and semi-annual Physician Guide.

330 Brookline Avenue
Boston, MA 02215

(617) 667-0270
fax (617) 667-3626
plevy@bidmc.harvard.edu

Question 3. Please explain and submit a summary table showing your annual operating margins (positive or negative) from 2004 to 2008 for your entire commercial, government, and all other business (and please identify the carriers or programs included in each of these three aggregate margins). Please explain and submit supporting documents to show the mechanics of how you calculate your margin from your accounting system and identify whether you exclude any direct costs or indirect costs, or include any grants, donations, or non-patient revenue, in calculating your margins.

Beth Israel Deaconess Medical Center's original testimony included the table described in the supplemental request and we have no information to add at this time.

Question 6. Please explain and submit supporting documents that show your internal costs, including any stop-loss coverage, for any risk you currently bear related to your contracts with commercial insurers. Please include any analysis you have conducted on how much your costs and risk-capital needs would change based on increases or decreases in risk you bear in relation to your business with commercial insurers.

The following information is provided to supplement original testimony on the nature of risk and pay for performance programs over the 2004 - 2008 period.

	2004	2005	2006	2007	2008
Revenue in risk contracts or pay-for-performance	$27.6M	$2.3M	$10.2M	$14.2M	$18.2M
Reinsurance and risk management costs	$2.1M	none	none	none	none

2004 was the final year of BIDMC's participation in capitated risk contracts with commercial payors. Since 2005, the revenue at risk is related to pay-for-performance requirements in various commercial contracts. The amount at risk for performance has increased steadily over the 2005-2008 period, and now represents approximately 2% of total patient revenue and more than 4% of commercial patient revenue. The Medical Center has increased its staffing in areas such as its quality and patient safety office to measure, monitor, and report the various metrics used to determine pay for performance.

Again, thank you for the opportunity to provide this information and participate in the Cost Driver Hearings. We appreciate the ongoing efforts of your office and the Office of the Attorney General.

Very truly yours,

Paul F. Levy

Beth Israel Deaconess Medical Center
Summary of Expenses by Grouped Departments
Per DHCFP-403 Schedule IX - Column 8 Adjusted

	2004	2005	2006	2007	2008	Compound Annual Growth Rate
OVERHEAD CENTERS						
Depreciation - Building	$ 34,732,112	$ 34,557,172	$ 34,420,804	$ 34,838,849	$ 38,336,495	
Depreciation - MME	$ 24,688,100	$ 22,833,021	$ 25,638,662	$ 24,940,122	$ 26,953,786	
Leases	$ 3,710,362	$ 4,018,449	$ 5,600,434	$ 4,323,344	$ 5,102,606	
Interest Expense	$ 21,215,549	$ 20,788,259	$ 21,526,665	$ 21,393,555	$ 24,761,082	
Fringe Benefits	$ 67,695,867	$ 69,062,621	$ 81,579,324	$ 87,785,295	$ 98,084,373	
Administration	$ 58,155,167	$ 60,421,966	$ 67,846,271	$ 71,556,790	$ 78,347,590	
General Accounting	$ 2,830,366	$ 2,977,854	$ 1,004,304	$ 4,977,577	$ 2,852,514	
Patient Accounting	$ 9,404,214	$ 10,293,280	$ 11,205,564	$ 11,820,095	$ 11,253,967	
Ins. - Prof. Malpractice	$ 5,171,077	$ 5,753,251	$ 6,205,839	$ 6,865,477	$ 7,150,543	
Ins. - Hosp.Malpractice	$ 1,427,764	$ 1,808,608	$ 455,904	$ 1,281,622	$ 1,594,591	
Insurance - Other	$ 2,051,463	$ 1,703,924	$ 1,945,567	$ 1,889,098	$ 1,880,632	
Plant Operations	$ 27,937,820	$ 30,291,542	$ 37,467,793	$ 36,978,095	$ 38,794,299	
Security	$ 4,809,366	$ 4,671,115	$ 4,291,501	$ 4,766,702	$ 4,967,273	
Laundry and Linen	$ 2,338,899	$ 2,498,549	$ 2,882,673	$ 3,154,903	$ 3,565,698	
Housekeeping	$ 9,090,267	$ 10,651,607	$ 11,538,706	$ 12,043,117	$ 13,258,570	
Dietary	$ 8,102,256	$ 8,749,922	$ 9,400,465	$ 9,250,028	$ 10,282,996	
Nursing Administration	$ 5,095,599	$ 6,321,211	$ 5,661,486	$ 5,777,749	$ 6,057,893	
Post Graduate Med. Educ. ©	$ 43,185,905	$ 43,129,098	$ 54,931,441	$ 54,600,594	$ 56,845,513	
Central Services (a)	$ 2,450,158	$ 2,547,048	$ 2,361,582	$ 2,571,503	$ 2,968,816	
Pharmacy (b)	$ 7,911,534	$ 10,398,668	$ 10,462,484	$ 11,497,634	$ 12,483,567	
Medical Records	$ 8,008,818	$ 8,254,098	$ 8,234,870	$ 9,799,701	$ 11,161,679	
Social Services	$ 3,199,527	$ 3,742,827	$ 4,461,480	$ 4,804,674	$ 5,563,250	
Overhead Centers	**$ 353,212,190**	**$ 365,474,090**	**$ 409,123,819**	**$ 426,916,524**	**$ 462,267,733**	7.0%
Surgery ©	$ 25,997,223	$ 28,621,644	$ 30,176,459	$ 38,277,760	$ 34,529,328	
Labor and Delivery © (d)	$ 7,070,555	$ 7,489,812	$ 7,961,679	$ 7,935,099	$ 9,671,428	
Recovery Room	$ 6,259,915	$ 7,361,841	$ 7,070,972	$ 7,042,065	$ 11,589,949	
Anesthesia ©	$ 4,658,696	$ 4,577,637	$ 4,461,132	$ 5,180,549	$ 5,618,126	
IV Therapy	$ 1,222,560	$ 1,702,791	$ 2,031,401	$ 2,266,919	$ 2,544,119	
Medical Supplies (a)	$ 22,633,386	$ 25,397,738	$ 30,258,969	$ 29,298,222	$ 31,440,596	
Drugs (b)	$ 36,490,526	$ 42,666,219	$ 44,907,370	$ 45,349,366	$ 47,762,869	
Laboratory ©	$ 25,405,173	$ 26,261,547	$ 28,793,795	$ 32,400,385	$ 35,233,723	
Blood Processing	$ 13,099,419	$ 14,626,140	$ 15,097,797	$ 15,258,446	$ 15,192,149	
EKG ©	$ 1,579,166	$ 1,705,030	$ 2,826,334	$ 3,191,783	$ 3,316,400	
Cardiac Cath	$ 21,348,963	$ 22,133,612	$ 20,216,878	$ 18,046,114	$ 18,231,637	
Diagnostic Radiology ©	$ 19,590,260	$ 21,306,778	$ 21,275,333	$ 24,432,447	$ 27,041,855	
Therapeutic Radiology ©	$ 7,512,148	$ 7,876,076	$ 7,762,518	$ 9,045,145	$ 8,575,334	
CT Scan	$ 4,936,876	$ 5,890,666	$ 6,422,032	$ 7,254,389	$ 7,471,397	
Nuclear Medicine	$ 3,794,322	$ 3,642,231	$ 3,969,979	$ 4,101,542	$ 4,231,575	
Respiratory Therapy	$ 3,002,558	$ 3,253,336	$ 3,776,928	$ 3,875,247	$ 4,557,299	
ECG ©	$ 1,961,922	$ 2,403,587	$ 1,932,759	$ 2,128,282	$ 1,949,742	
Physical Therapy	$ 2,757,869	$ 3,501,167	$ 3,739,261	$ 3,930,293	$ 4,270,957	
Speech Therapy	$ 252,710	$ 292,766	$ 278,940	$ 308,038	$ 499,120	
Renal Dialysis ©	$ 1,386,489	$ 1,104,532	$ 1,561,832	$ 1,406,858	$ 1,602,597	
Organ Acquisition	$ 2,708,973	$ 3,674,521	$ 3,718,212	$ 2,709,977	$ 2,953,770	
MRI	$ 2,841,700	$ 2,787,293	$ 3,034,898	$ 3,924,812	$ 4,643,148	
Subtotal Ancillary	**$ 216,511,409**	**$ 238,276,964**	**$ 251,275,478**	**$ 267,363,738**	**$ 282,927,118**	6.9%
M/S Acute ©	$ 43,410,410	$ 50,872,797	$ 54,576,121	$ 60,320,540	$ 67,475,063	
OB Acute	$ 7,018,953	$ 6,958,401	$ 7,524,777	$ 8,055,739	$ 9,071,809	
Pyschiatric Acute	$ 2,332,659	$ 2,535,658	$ 2,890,195	$ 3,003,855	$ 3,260,172	
M/S Intensive Care ©	$ 21,177,760	$ 24,660,732	$ 26,710,847	$ 27,791,563	$ 30,864,261	
Neonatal Intensive Care ©	$ 8,521,036	$ 9,414,144	$ 9,696,485	$ 10,521,413	$ 12,074,212	
Newborn Nursery (d)	$ 554,266	$ 1,186,328	$ 1,341,117	$ 1,487,558	$ 1,902,341	
Subtotal Routine	**$ 83,015,084**	**$ 95,628,060**	**$ 102,739,542**	**$ 111,180,668**	**$ 124,647,858**	10.7%

Beth Israel Deaconess Medical Center
Summary of Expenses by Grouped Departments
Per DHCFP-403 Schedule IX - Column 8 Adjusted

	2004	2005	2006	2007	2008	Compound Annual Growth Rate
Emergency Services ©	$ 11,083,647	$ 12,971,727	$ 14,138,200	$ 14,950,236	$ 16,791,866	
Clinics/Ambulatory Serv. ©	$ 30,806,645	$ 39,083,981	$ 39,052,988	$ 45,143,667	$ 41,760,771	
Ambulatory Surgery ©	$ 6,137,718	$ 7,239,156	$ 7,263,734	$ 8,045,072	$ 17,012,079	
Outpatient Psychiatry ©	$ 1,564,479	$ 1,848,538	$ 1,747,892	$ 3,524,830	$ 4,217,474	
Bowdoin St Clinic	$ 3,409,123	$ 3,789,565	$ 3,899,156	$ 4,408,426	$ 4,608,331	
Subtotal Ambulatory	**$ 53,001,612**	**$ 64,932,967**	$ 66,101,970	**$ 76,072,231**	**$ 84,390,521**	12.3%
Research	$ 139,354,668	$ 148,071,329	$ 162,480,613	$ 171,175,587	$ 179,774,153	
Non-Patient	$ 6,979,998	$ 6,564,841	$ 8,653,546	$ 10,771,028	$ 13,390,665	
Subtotal Non-Overhead	**$ 498,862,771**	**$ 553,474,161**	**$ 591,251,149**	**$ 636,563,252**	**$ 685,130,315**	8.3%
Total Patient/Non-Pat. Exp.	$ 852,074,961	$ 918,948,251	$ 1,000,374,968	$ 1,063,479,776	$ 1,147,398,048	7.7%
Provision for BD	$ 18,539,855	$ 12,243,154	$ 19,135,114	$ 16,881,010	$ 20,641,220	
UCP Assessment	$ 9,885,332	$ 10,278,980	$ 10,531,336	$ 11,258,046	$ 10,503,586	
Total Expenses	$ 880,500,148	$ 941,470,385	$ 1,030,041,418	$ 1,091,618,832	$ 1,178,542,854	7.6%

Note:

(a) Billible supplies were moved from the overhead Central Supply line to the Ancillary Medical Supply line
(b) Drugs charged to patients were moved from the overhead Pharmacy line to the Ancillary Drug line
© All teaching related Physician time and Resident costs have been reclassed from the individual departments to the Medical Education line.
(d) The cost of Newborn Nursery was reclassed from Labor & delivery to the Newborn Nursery line in 2005